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## "HAVE ITS CAKE AND EAT IT TOO" POLISH DISCOURSE ON THE CURRENT EUROZONE CRISIS

This paper maps Polish discourse on the current crisis by identifying and analysing the positions of key actors on the Polish political scene. It is part of a broader project that seeks to identify similarities and differences in attitudes towards the turbulences in the Eurozone in Poland and the Czech Republic, two countries that remain outside the Eurozone but are bound by treaty to join. Based on analysis of public documents, press reports and interviews, the paper illuminates the stage of debate on six issue areas, identified by the project framework: euro adoption, two Eurozone pacts that were opened for non-Eurozone members, support to the International Monetary Fund (IMF), banking union and the financial transaction tax (FTT).

## **Executive summary**

In the last two years adoption of the common currency was not a highly debated issue in Poland. The country does not meet criteria for Eurozone entry nor does it have a plan for currency switchover. There is unanimity among the political elites that the decision about currency change should be made after the situation in the Eurozone stabilizes. However, a slight shift can be observed in the position of the Central Bank and ruling Civic Platform party as the reforms in Eurozone advance. These actors claim that setting a date for adoption of the euro is important to demonstrate Poland's commitment to deepening EU integration. This poses a challenge for the government as public support for the euro is at a record low.

Poland has signed two pacts: the Euro Plus Pact and the Treaty on Stability, Coordination and Governance in the EMU, both aimed at tightening economic coordination in Europe. The Polish government had a say on the final shape of these agreements and Poland's participation in these pacts is a result of fear that deepening of integration within Eurozone will push Poland onto Europe's periphery. On the other hand, the government is afraid that the domestic costs of compliance with these pacts will undermine its electoral support. Torn by external developments and domestic constraints, the government pursues politics signalling its support but abstains from taking new obligations. However, such a tactic exposes it to two lines of criticism. Eurosceptics accuse the government of stripping Poland of its sovereignty, while Europhiles criticize it for indecisiveness.

Poland has declared its readiness to support the IMF with a loan but has not yet signed a final agreement with the Fund. Whereas the government and the Central Bank are in favour of the loan, the biggest opposition party and the general public think that Poland is not rich enough to help the IMF.

Banking Union is a contentious topic in Poland. The government, supervisory authorities and the political opposition all fear that common supervision will have a negative impact on the safety and soundness of the Polish banking sector. Thus, Polish authorities want to secure a voice in the European Central Bank (ECB) which is in charge of common oversight. Whereas banking union is a highly debated issue, FTT is considered of minor importance for Poland and the country has not voluntarily signed up for introduction of the new levy.

## Attitudes of political elites

### Euro currency

#### **Formal criteria**

Poland is required by the terms of its 2004 EU entry to adopt the common currency. In order to replace the zloty with the euro it has to fulfill four macroeconomic requirements, the so-called Maastricht criteria, regarding the soundness of public finance, stability of prices and interests rates. Moreover, it has to spend a minimum of two years in the exchange-rate mechanism that tests currency stability (ERM II). In order to qualify for the Eurozone entry the country has to:

- Achieve a level of deficit in relation to Gross Domestic Product (GDP) lower than 3 per cent;
- Achieve a level of public debt in relation to GDP lower than 60 per cent;
- Have a level of inflation not higher than the rate of the three best performing Member States;
- Have a level of long term interest rates no more than 2 percentage points higher than the rate of the three best performing Member States in terms of price stability.

Poland does not fulfill the aforementioned criteria. The most problematic one is the deficit criterion, as Poland has been struggling to keep its public finance under control since 2008. In 2010, the country's budget deficit ballooned to 7.8 percent of GDP, overshooting by 3 per cent the threshold envisaged by the Maastricht criteria. This triggered a reaction from EU authorities which imposed the Excessive Debt Procedure (EDP) on Poland. The European Commission obliged Poland to lower the deficit to the required threshold in 2012. Poland took several steps to narrow the shortfall, including the reform of pension system, and informed the European Commission that it expected a 2.97 percent deficit in 2012. However, in the course of 2012 the Finance Ministry announced that due to the economic slowdown the pace of reducing the gap would be slower. According to the new estimates a shortfall of 3.5 per cent is envisaged at the end of 2012 and the country plans to be out of the EDP procedure next year.<sup>1</sup>

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<sup>1</sup> "Rostowski: w 2013 r. wyjście z procedury nadmiernego deficytu," PAP, 05.09.2012.

Aside from the problems with the excessive deficit, Poland also has problems with meeting the remaining criteria. For most of 2011 and 2012 inflation exceeded the reference value and Poland has problems with fulfilling the interest rate criteria as well.

### **Plans for euro adoption**

In 2008 the government adopted the document "Road Map for Euro Adoption in Poland", which set the date for the adoption of the common currency in 2012. The following year Poland adopted another document that set the conditions for safe membership in ERM II, which precedes the Eurozone accession.<sup>2</sup> The plans for currency changeover resulted in the creation of new administrative bodies. Since 2009 the Government Plenipotentiary for Euro Adoption has been operating within the Ministry of Finance with the aim of coordinating and monitoring preparations for the Eurozone accession. It manages and cooperates with several intergovernmental groups and the Central Bank.

The financial turbulence and deterioration in global economic activity at the beginning of 2009 impeded Poland's plans for euro adoption. Poland abandoned 2012 as a target date and has not set a new one. The last official document concerning the currency change dates back to 2010 and says:

*"... setting, at present, a precise date for euro adoption in Poland would be associated with considerable risk. Failure to meet a clear deadline would, on the other hand, result in a lower credibility of the strategy for the Republic of Poland's integration with the euro area and the related unfavorable economic effects. The Polish government will, however, continue to take all the necessary measures aimed at adopting the euro as soon as possible"*<sup>3</sup>

Poland has not yet prepared a National Euro Changeover Plan (NECP), although the government sought to have an NECP by 2011. Work on this document has slowed down and the Ministry of Finance has postponed the date of the adoption of this document several times.<sup>4</sup>

Summing up, there has been no progress in the Eurozone entry preparatory process since 2010.

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2 Prerequisites for Implementation of the Next Stages of the Roadmap for Euro Adoption in Poland, adopted by the Council of Ministers on 27 April 2009.

3 Government Plenipotentiary for Euro Adoption in Poland, Strategic Guidelines for the National Euro Changeover Plan, 2010, p. 12.

4 "Dominik: duża determinacja władz polskich, by wejść do strefy euro," PAP, 10.07.2011.

### Government's Rhetoric

Although the government maintains its commitment to the euro, its rhetoric has changed in the last two years due to the crisis in the Eurozone and the declining support for the euro among Poles. All government officials present the same line while talking about entry date. Regardless of who is talking about adoption of the euro, the message is that while joining the euro remains a strategic goal, Poland first wants to see the euro zone solve its debt problems. Therefore, the most likely response to the question of Poland's entry to Eurozone is the one that finance minister Rostowski gave reporters in November 2011:

*"We want to enter the euro zone when it heals the weaknesses that are visible now."*<sup>5</sup>

The main argument that the Polish government uses to explain its reluctance to set the date of changeover is the turbulence and unclear future of the Eurozone. According to government officials it is simply not safe to move into a "house that is under construction."<sup>6</sup> At the same time the government emphasizes its commitment to the euro by declaring that it wants to meet the Maastricht criteria and that it should be formally ready for Eurozone accession by the end of 2015.

Yet, since the Eurozone members are working on a solution to the current crisis that entails greater political and fiscal integration, the government is faced with a dilemma: do the risks of being left outside the Eurozone outweigh the dangers of joining a single currency that is still in the grip of crisis? Polish decision-makers fear that delaying the decision might push Poland into periphery of Europe and deprive it of its voice on EU matters. Although the ruling Civic Platform did not make reference to the timing of the adoption of the common currency in its manifesto of 2011, there are voices that call for setting the target date.

*"We need a political declaration regarding Polish accession to the Eurozone. If we want to be credible, we have to officially announce our plans..."*<sup>7</sup>

Some members of Civic Platform go as far as suggesting a date. In the beginning of 2012 Dariusz Rosati, the head of the parliamentary public finance committee,

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5 "Poland, eyeing euro crisis, launches austerity drive", Thomson Reuters, 18.11.2011.

6 "Rostowski o wejściu Polski do strefy euro: jak naprawią ten dom," PAP, 22.06.2012.

7 "Huebner: Polska musi podać na forum UE kalendarz wchodzenia do euro," PAP, 14.09.2012.

said that Poland should seek to adopt the euro in 2016, and join the exchange-rate mechanism in 2014.<sup>8</sup>

### **The Central Bank**

The responsibility for meeting the Maastricht criteria also rests on the Central Bank which is in charge of inflation and interest rate criteria. The Bank's Monetary Policy Council (MPC) used to include a sentence in its statement following its monthly meetings determine interest rates that said: "*The council maintains that Poland should adopt the euro and enter ERM II as soon as possible, after fulfilling legal, economic and organizational conditions.*" However, since the September 2011 this declaration no longer appears in the Council's statement implying that fast adoption of the common currency is no longer the Central Bank's objective. This is further implied in the speeches of the Central Bank's Governor, Marek Belka, who has stated repeatedly that Poland should not hurry to adopt the euro, but rather wait until the European Union adjusts its political institutions and economy to support a stable common currency.

*"As long as the Eurozone is not stable, it's not attractive for us."*<sup>9</sup>

Belka argues that crisis has changed the balance of costs and benefits of euro adoption, and that the immediate benefits of fast euro adoption are now smaller for Poland.<sup>10</sup>

However, recent reform plans undertaken by Eurozone members aimed at deepening integration have had an impact on the thinking regarding the timing of euro adoption. The Central Bank governor has acknowledged that entering a more integrated, stronger Eurozone would be more difficult for Poland both politically and economically.<sup>11</sup>

### **Political parties**

Key opposition parties agree that Poland should wait with switching to the euro until the situation on the financial market settles down. However, the conservative Law and Justice party (PiS) added another condition in its 2011 party

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8 "Poland Should Target Adopting Euro in 2016, Finance Committee Chief Says," Bloomberg, 29.02.2012.

9 "Analysis: Poland leans towards euro entry despite crisis," Reuters, Oct 24, 2012.

10 "East Will See Fewer Benefits From Fast Euro Adoption, Belka Says," Bloomberg, May 20, 2011.

11 "*Belka: strefa euro to dylemat dla Polski*," PAP, 23.10.2012.

manifesto - fast economic development.<sup>12</sup> In practice this means that the zloty will remain Poland's currency for at least twenty years.<sup>13</sup> Moreover, the party argues that the decision about a currency switchover requires a referendum.<sup>14</sup> PiS has also thwarted efforts to amend Poland's constitution as a first step towards creating the legal basis for euro adoption. Since the charter stipulates that the Central Bank is the sole institution to issue currency and it names the zloty as Poland's only currency, changes in the constitution need to be introduced. The Democratic Left Alliance (SLD) supports changes in the constitution and in its manifesto argued that Poland should pursue preparations for currency switchover by focusing on meeting the Maastrich criteria. Yet, the party does not state precisely when the euro should replace the zloty.<sup>15</sup> Although it supports adoption of the common currency, the liberal Palikot Movement does not refer to the timing of currency switchover in its manifesto.

### Euro Plus Pact

Poland signed the Euro Plus Pact together with five non-Eurozone countries in March 2011. The package is intended to strengthen economic policy coordination between member states with the aim of improving competitiveness and enabling a greater degree of convergence. It stipulates a number of policy measures including writing limits on public debt and budget deficits into national law and requires coordination of pension, tax, and wage policies.

The preparation of the Euro Plus Pact can be traced back to the autumn of 2010 when the diverging economic performance of countries in the euro area prompted German calls for greater economic integration within the Eurozone. Consultations between the German and French governments led to the announcement of the initiative called the Competitiveness Pact in February 2011. The Franco-German proposal also stipulated that Eurozone members would meet at a special summit restricted to the Eurozone countries. This has raised objections of the Polish government which angrily rebuffed the Franco-German

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12 *Nowoczesna, Bezpieczna, Solidarna Polska. Program Prawa i Sprawiedliwości*, 2011, 95.

13 "Poland should delay euro for 20 years – Kaczynski," Reuters, 01.02.2011.

14 *Nowoczesna, Bezpieczna, Solidarna Polska. Program Prawa i Sprawiedliwości*, 2011, 95.

15 *Jutro bez obaw program dla Polski. Sojusz Lewicy Demokratycznej*, 2011, 81 and 198.

"pact for the euro." Eventually, the agreement was renamed the "Euro-plus pact" and Poland as well as other non-euro countries became its signatories.

### **The government**

The government fought for and signed the Euro Plus Pact out of the fear that Poland's impact on European affairs might be diminished with the deepening of cooperation among the Eurozone countries. Officially the government presented a coherent position on the rationale for signing the pact. According to the government, participation in the Pact was a win-win situation for Poland. It strengthened Poland's position in European politics without incurring extra domestic costs. Regarding the impact on Poland's strength in the international arena, the government argued that the tightening of economic cooperation among the Eurozone members, although necessary, might lead to a division in the EU and a situation in which decisions about EU economic matters would be made by 17 countries, but affect all 27 EU members. Since Poland is not in the Eurozone there was a risk that it would be pushed to Europe's periphery and marginalized. The Polish government objected to separate summits for the Eurozone countries claiming that the decisions made by Eurozone leaders would have an impact on the economies remaining outside the Eurozone. On the domestic scene Tusk's government presented its fight for participation in the Pact as a matter of reputation. One of ministers put it this way:

*"The pact is beneficial for Poland from the reputational point of view, as we present ourselves as a country which has a competitive economy, which is not afraid of international competition, and which can be seen as the best example of how to modernize and reform the economy."*<sup>16</sup>

At the same time the government emphasized that by signing the Pact Poland does not take up any new commitments.. At the time of signing the Pact Poland already had instituted constitutional "brakes on the debt," thus fulfilling the Pact's key postulate regarding writing the debt limits envisaged by The Stability and Growth Pact into national law. The Polish constitution stipulates that if debt breaches 55 per cent of output, the government has to reduce the budget deficit the following year. Should the debt top 60 per cent, Poland's constitution requires the government to balance the budget the next year. The Pact also

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16 "Dowgielewicz: pakt Euro Plus to nie zobowiązania, a korzyści," PAP 01.04.2011



called for a review of the wage index system, which Poland had abandoned earlier (2009), rising the retirement age (which Poland is already advanced in introducing), and improving corporate tax coordination.

*"First of all, our participation in the Euro Plus Pact does not imply financial commitments. Secondly, if we look at the other commitments that countries take, Poland does not have to take up any new commitments."*<sup>17</sup>

The government stressed that the Pact was not an additional top-down obligation put on Poland by some EU institution, but an initiative of countries wishing to cooperate and coordinate their economic policies aimed at boosting competitiveness. Polish officials emphasized that the Pact framework allowed countries to formulate their competitiveness goals independently and that there are no sanctions for non-compliance. It was thus presented as a mechanism of coordination rather than one of external enforcement.

*"It allows countries to, in some sense, devise their own reform agenda, but to compare that agenda and say: this is the most important for us, this is something what we have to do. I think it is actually a very useful exercise and that is why Poland wanted to join"*<sup>18</sup>

### **Political Parties**

Even though the government tried to present participation in the Pact as a win-win situation, the main opposition party Law and Justice attacked the cabinet for signing the package without prior consultation with the Parliament. Law and Justice deputies argued that signing the package might lead to deterioration of Poland's competitiveness. They pointed out that the package called for harmonization of the corporate tax base in the EU, which would imply raising the tax rate from 19 to 30 per cent as in Germany and France.<sup>19</sup> The government explained that by signing the document it made no commitment to tax hikes and said it objected to the adoption of a tax harmonization directive.<sup>20</sup>

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17 "Tusk: Participation in EuroPlus Pact does not require new commitments," PAP, 25.03. 2011.

18 Jacek Rostowski, *Stenogram wystąpienia Ministra Jacka Vincenta Rostowskiego na GPW*.

19 "PIS: Pakt Euro Plus niekorzystny dla Polski," PAP, 29.03. 2011.

20 *Projekt stanowiska RP dotyczący Dyrektywy Rady w Sprawie Wspólnej skonsolidowanej podstawy opodatkowania osób prawnych* (COM (2011) 121).

## **Treaty on Stability, Coordination and Governance in the EMU (the TSCG fiscal compact)**

Poland has signed the Treaty on Stability, Coordination and Governance in the EMU and seeks to ratify it by the end of 2012. The main aim of the treaty is to enforce more budget discipline in the Eurozone. The treaty's golden rule is that a country's budget must be in balance or in surplus which means that the structural deficit cannot be higher than 0.5 percent of gross domestic product. The European Court of Justice will fine any non-complying countries with a penalty equivalent to up to 0.1 percent of the country's GDP. The fiscal compact applies to Eurozone countries in full, while non-euro zone countries have to observe only those elements of the treaty they choose to before they adopt the euro. The Treaty also stipulates that non-Eurozone countries that ratify the treaty will be allowed to take part in summits of the 17 Eurozone members focusing on competitiveness and changes to the Eurozone and, if needed, on the treaty's implementation at least once a year.

### **The government**

From the very beginning the government backed the fiscal compact and there were no discrepancies among cabinet members on that matter. As in the case of earlier EU initiatives, i.e., the Euro Plus pact and Six-Pack, the key reason for signing the agreement was the fear that deeper integration of the Eurozone would push Poland to Europe's periphery. Therefore, the members of the government repeated the same set of arguments explaining why it was beneficial for Poland to remain among the countries that constitute Europe's core. Foreign affairs minister Radosław Sikorski argued that by signing the treaty Poland manifested both its solidarity with the Eurozone and its commitment to further EU integration.<sup>21</sup> Therefore, Poland's signature on the treaty was a part of the government's broader foreign policy goal, namely support for a strong Europe. The ruling Civic Platform party and most of the opposition parties (with the exception of the Law and Justice party) subscribed to the view that a strong Eurozone was beneficial for the Polish economy, hence it was rational for Poland to back initiatives aimed at ending the crisis.

The pragmatic side of this argument was that Poland could not avoid processes such as globalization or the centralization of economic policy making on the

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21 "Nie sprzedaliśmy Polski," *Gazeta Wyborcza*, 12.12.2011.

transnational level. Therefore, it could either try to influence the decision-making processes taking place outside of Warsaw or remain an outsider.<sup>22</sup> The Polish prime minister presented this alternative curtly with acerbic wit: *"You are either at the table or on the menu."*<sup>23</sup>

And so the government efforts were directed towards securing a place for Poland at the table where the decisions about the Eurozone's future would be made. The government argued that Poland had a right to participate in Eurozone meetings as a country bound by treaty to join the single currency. The Polish premier insisted that the participation of non-euro countries in EMU summits be guaranteed in the pact, as he feared that the new treaty would lead to the creation of a "two-speed Europe," with Eurozone countries moving into a tighter subgroup. The premier even warned that Poland might not sign the agreement unless some concession on that matter was made.

*"If Poland does not win an appropriate status of participant in the Eurozone meetings, which would give us a feeling that we take part in the decision-making process ... we will find it difficult to sign the fiscal pact ... We will not accept such a model."*<sup>24</sup>

With some German support Poland was able to reach a compromise with France, the main opponent of non-Eurozone countries' participation in summits. The government accepted the compromise as satisfactory and signed the treaty.<sup>25</sup>

Although the cabinet has employed pro-European rhetoric and backed the fiscal compact, it has also stressed that Poland has no intention to subject itself to the treaty deficit rules on a voluntary basis. Members of the government have repeatedly stated that as long as the country remains outside the Eurozone Poland is not bound by the structural deficit criterion. The finance minister admitted frankly that the government was not such a masochist as to take on new burdens.

*"We have our own limits of debt and deficit that are better suited to serve the country's needs. We are also obliged by the European Commission to reduce excess deficit."*<sup>26</sup>

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22 "Ankieta o reformie Unii Europejskiej," *Gazeta Wyborcza*, 21.12.2011.

23 "Pakt fiskalny, czyli ryzyko polityczne," *Gazeta Wyborcza*, 02.03.2012.

24 "Poland bristles at idea of 'invitation-only' summits," *Financial Times*, 27.01.2012.

25 "Tusk: podpiszemy pakt fiskalny choć mamy zastrzeżenia," *PAP*, 31.01.2012.

26 "Po co kolejny pakt fiskalny. Co w praktyce oznacza on dla Polski?," *Gazeta Wyborcza*, 22.12.2011.

In sum, the government position can be seen as a pragmatic one. On the one hand the government uses European solidarity rhetoric, but on the other it is primarily concerned with national interest. More concretely, it does not want to introduce stricter deficit rules, as this would require painful cuts in social expenditures, which in turn would undermine electoral support for the ruling coalition. In other words, stretching the prime minister's own metaphor: the government wants to be at the table, but does not want to pay for the meal from its own purse.

### **Political Parties**

The junior coalition partner is in favor of the treaty, but the opposition is split on whether Poland should participate in the agreement. While the Democratic Left Alliance and the liberal and pro-business Palikot Movement back the government, the conservative Law and Justice party argues that the Tusk cabinet should not have signed the treaty. Law and Justice also intends to block ratification of the treaty by demanding its approval by a two-thirds (super) majority of the Polish Sejm.

Even though Law and Justice is against the fiscal compact, it has changed its rhetoric from militant euro-skepticism to more balanced arguments. After the government declared support for the fiscal compact at the end of 2011, the party organized a rally in Warsaw to protest against closer European integration. The demonstration took place on the 30th anniversary of the imposition of Martial Law in Poland and the party's leader, Jarosław Kaczyński, drew a parallel between the historical events and the current government's politics accusing the prime minister of betraying the nation's interests.

*"PiS will lead the fight for a truly sovereign Poland, where Poles themselves can decide on what is most important for them, can build their prosperity on their own, because we can afford that."*<sup>27</sup>

The above quote illustrates that Law and Justice sees government policy as adhering to the malevolent process of subjecting Poland to the influence of the EU and its most powerful member – Germany. In this light the German-led fiscal pact with its strict deficit limit is seen as an EU/German grip on the country's freedom to formulate economic policy. Poland's signature on the treaty is thus considered as an attempt to strip the country of its powers. Even though the

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27 "Thousands of Poles protest against new EU treaty," Reuters, 13.12.2011.

party still uses anti-European and anti-German rhetoric to address its core electorate, it has also developed a more nuanced argument against closer integration of the Eurozone in general and the fiscal compact in particular. In this argumentation Law and Justice presents itself as a political party concerned with the future of the EU.<sup>28</sup> First, the party questions the legal foundation of the agreement which from their legal point of view is not a Community law (treaty) because it was not signed by all member countries, but is rather an intergovernmental agreement among 26 European countries. In that regard Law and Justice's position echoes that of David Cameron, who refused to sign the treaty.<sup>29</sup> Second, Law and Justice worries that the treaty will in fact lead to Europe's disintegration into several groups of countries depending on to what extent they enforce the law, a worry that is also expressed by many political commentators in Poland and the EU. Third, the party predicts that by introducing various types of summits and differentiating among the rights of participating countries (observers *vs.* decision-makers) the treaty blurs the decision-making process in the EU making it less legitimate.

In conclusion, the main opposition party finds the treaty problematic and objects to its ratification. The main argument against ratification, albeit expressed in various ways, is that this new agreement shifts the power of domestic economic policy making from the national government to the supranational level (Brussels).

### Loan to the IMF

European leaders agreed at the end of 2011 to provide the International Monetary Fund (IMF) with up to 200 billion euros to boost the fund's firepower in fighting the crisis in the Eurozone. These resources come from individual countries in the form of bilateral loans to the Fund. Contributions from Eurozone countries amount to 150 billion euros while the remaining 50 billion come from non-Eurozone members.

#### **The Government and the Central Bank**

The Polish government supported the idea of boosting IMF's lending capacity and agreed to lend the IMF 6.27 billion euros, from the country's foreign exchange

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<sup>28</sup> "Po co nam pakt fiskalny," *Gazeta Wyborcza*, 20.03.2012.

<sup>29</sup> "UK scuppers Merkel desire for legal clarity," *Financial Times*, 09.12. 2011.

reserves. The government is cooperating on that matter with the Central Bank which is in charge of the reserves' management. The Bank is currently negotiating with the IMF on the conditions of the loan and the final deal has not yet been signed.

Both the government and the Central Bank use the same set of arguments in support of the loan. These arguments can be divided into two groups. Arguments that belong to the first group seek to explain why a country like Poland that has access to IMF credit lines wants to lend money to the fund. The second group of arguments addresses the impact of loan on the country's financial situation.

Why do Poles want to support the IMF? Both the government and the Central Bank emphasize that the decision to lend the IMF 6.27 billion euros is a political one. According to the officials, it is in Poland's best interest to manifest solidarity with the Eurozone countries that are in trouble. By declaring its readiness to support these countries, Poland demonstrates that not only it is a recipient of EU funds, but it also is ready to help the Community. Aside from moral explanations, politicians of the ruling elite also stress that the loan is beneficial in economic terms. First, by showing that Poland can afford to lend to the IMF, the country sends a signal to international investors of its good financial standing. Second, they argue that Poland should do all it can to help save the Eurozone because its fall would have detrimental effects on Poland's economy. Therefore, by helping to save them, we save ourselves.<sup>30</sup>

What will the impact of the loan be on the Polish economy? Government and Central Bank officials are concentrating on ensuring the loan does not have a negative impact on the Polish economy. They stress that the money is coming from the Central Bank's foreign reserves, not from the budget.

*"It is not an alternative to funding kindergarten, schools or national defense."*<sup>31</sup>

Regarding the level of the reserves, which guarantee full convertibility of the zloty, the Central Bank has declared that the loan would not affect the size of reserves. The 6.27 billion euro loan accounts for less than 10 per cent of the banks' reserves, which are invested in securities issued by foreign governments and international financial institutions. Hence, the new loan will not decrease the level of reserves, but will change their structure. In order to make the funds

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30 Czy Polskę stać na pożyczanie innym, Gazeta Wyborcza, 17.12. 2011.

31 Tusk: Rząd i IMF ustalą warunki ewentualnej pożyczki dla IMF, PAP, 15.12.2011.

available to the IMF, the bank will sell some foreign bonds.<sup>32</sup> The third argument refers to the safety of the loan. The government and Central Bank stress that the 6 billion euros that Poland has committed itself to is a loan, not a donation. Therefore, the amount will be returned with interest. Moreover, it is a secure loan. The money, the argument goes, is not being lent to a troubled country like Spain or Italy, but to a reputable international institution, which is one of the most credible borrowers. Moreover, the deal assumes that Poland has the right to ask the fund to return the money whenever there will be such need.

### Political parties

The conservative Law and Justice party initially objected to the loan, claiming that the government acted against national interests when it declared its readiness to support the IMF. However, the fate of the loan is no longer in the party's interests, and was not discussed during the meeting of the party leader with the Central Bank governor in October 2012.

When the details and conditions of the loan were still not known Law and Justice used two types of arguments: a moral and an economic one. According to the moral argument, it is simply not fair that poor Polish citizens give their savings to the rich albeit restless Western nations. The government has no right to dispose of the savings of a poor nation to help the rich. On economic grounds Law and Justice members have pointed out the danger of decreasing foreign exchange reserves. They argued that by lending the money to the IMF Poland might not have enough resources to defend the zloty in case of speculative attacks.<sup>33</sup>

The rest of political scene – the liberal Palikot Movement and Democratic Left Alliance have supported the loan. They argued that it was in Poland's interests to help save the Eurozone, especially in view of the low cost of such aid.<sup>34</sup>

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32 Pożyczka dla IMF neutralna, Parkiet, 15.02.2012; Belka: Kredyt dla IMF nie zagraża stabilności finansowej Polski, PAP, 25.07.2012.

33 Krzysztof Szczerski: "Tusk szasta rezerwami," Nasz Dziennik, 12.12.2011; "PIS chce repolonizacji Polski," PAP, 12.12. 2011.

34 "Pożyczka dla IMF to dobry interes," IAR, 13.12. 2011.

## Banking union and financial transaction tax

### Banking Union

European Central bankers and economists have been calling for the integration of bank governance in the Eurozone since March 2012. In response, the European Commission proposed a banking union scheme which comprises of three key elements: centralization of supervision in the European Central Bank (ECB); a unified deposit-guarantee scheme and a common framework for the resolution or winding up of troubled banks. During the October summit European leaders agreed on the first element of banking union and made the ECB responsible for supervision of banks. However, it is not clear how the process will work and to what extent it will affect the banking sector in non-Eurozone countries. Controversies remain also in regard to the other two pillars of banking union: the deposit-guarantee fund and bank resolution scheme.

Poland remains outside the Eurozone, but Eurozone lenders control 60 per cent of banking assets. The sector is considered safe, and Poland has not had to bailout its lenders since the beginning of the crisis. The KNF Financial Supervision Authority is in charge of surveillance of the banking sector.

### The Government

The banking union is a project under construction, presented by the EU authorities as another tool for fighting the crisis in the Eurozone. This is why the Polish government supports this solution along with other solutions aimed at restoring stability in the Eurozone. Even though the banking union is open to non-Eurozone countries, the Polish government has not yet declared whether Poland will join this initiative and is waiting for more details to be revealed. The government opinion on whether Poland should participate in the banking union has been shifting in response to the changing shape of this scheme. Whenever new details of the banking union are unveiled the government calculates how the proposed solutions would affect national interests and the soundness of the Polish banking sector. After the June summit when the preliminary concept of the banking union was adopted, the Polish premier expressed support for closer integration of bank governance. He has also emphasized that the banking union is not restricted to the 17 Eurozone countries, referring to the concerns that closer integration within the Eurozone might lead to marginalization of Poland's impact on European politics. He has, however, avoided making commitments on whether Poland will join the initiative, vaguely stating that:



*"Badly designed European banking supervision might hinder Polish interests, but a well designed one could be beneficial."*<sup>35</sup>

The finance minister expressed a similar opinion, stressing the merits of common supervision: the better control of the parent companies of banks operating in Poland and the additional guarantee of Polish deposits through the pan-European deposit scheme.

In September 2012, the prime minister emphasized that Poland was open to participation in the banking union providing that it would have a voice over the shape of the union and in the decision-making process of its future supervisor. However, the preliminary proposal of the Commission to make the ECB responsible for oversight of the banking sector in the EU disappointed the government as it did not address the problem of representation. Since Poland does not use the euro, it does not have a voice in the ECB, which was set up to take on regulatory duties. Participation in such a scheme would imply subjecting Polish banks to ECB decisions while depriving Polish authorities of a say in the ECB supervisory process.

*"We are not interested in joining the union in its current shape."*<sup>36</sup>

The position of the Polish government softened, when during the October summit European leaders agreed to allow the ECB to supervise banks from next year, but left such critical issues as the method for accommodation of non-euro nations to the scheme, the number of banks the ECB will directly supervise and whether and how countries will share the cost of resolving problems for further discussions.

### **The Polish Financial Supervisory Authority (KNF) and the Central Bank**

The positions of KNF and the Central Bank, two institutions responsible for the soundness of the banking sector in Poland, are similar to that of the government. Both institutions are sympathetic to the idea of tighter supervision on the European level. They agree that the current system of regulations and supervision is sufficient neither on the national level nor on the European one. More specifically, they point to deficiencies in the surveillance of cross-border bank holdings. The Central Bank governor said in October that:

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<sup>35</sup> "Szczyt UE, co z tego wynika dla Polski," Rzeczpospolita, 30.06.2012

<sup>36</sup> "Unia bankowa. Nie w obecnej formule," PAP, 15.09.2012.

*"Without doubt we need common oversight, especially if we take into account the ownership structure in the European banking sector... We see benefits of a banking union for Europe and for Poland."*<sup>37</sup>

However, as the key stakeholders whose fate and powers would change when a banking union would come into life, they expressed their concerns more openly than the government. There are three issues which concern KNF and the Central Bank. The first one regards the rationale and the direction of the reform of transnational prudential regulation, while the remaining two regard the impact of the projected reforms on the stability of domestic banking sectors. First, Polish regulators stress that governance reform is already under the way and note such measures as the creation of the European Banking Authority (EBA), works on the BASEL III standards, MIFID II and others. Since these measures belong to the new area of regulation - macro stability, KNF and the Central Bank argue that such reforms should be undertaken cautiously. Although they support reform in general, they doubt that the banking union pushed by the Commission would help to overcome the crisis in the Eurozone.

Second, regarding the impact of projected changes on the Polish banking sector, Polish regulators stress that banking union rests on a "holding regulatory approach" according to which a transnational watchdog focuses on the soundness of the banking group as a whole, and pays less attention if any to daughter companies. This approach is, however, problematic for Poland, whose banking sectors comprise largely of daughter companies.<sup>38</sup> According to supervisory institutions the current crisis demonstrates that due to stringent local regulations and oversight Poland's banks avoided problems and were safe, while their parent companies were in trouble and in several cases required state help. Therefore, the argument goes, a holding regulatory approach poses serious risks of asset outflows from daughter to mother companies.<sup>39</sup> The third concern regards the equal treatment of banks. KNF is afraid that Poland's banks could be disadvantaged if a balance is not maintained between the ECB and its oversight of euro zone banks and the powers of other authorities to oversee non-euro zone banks. According to the deputy head of the KNF joining the union in its currently proposed form would lead to a situation in which Polish banks would be

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37 Belka: Unia bankowa będzie korzystna dla Polski, PAP, 18.10. 2012.

38 "Banki pod kontrolą," Rzeczpospolita, 18.06. 2012; Do Unii bankowej bez pośpiechu, Rzeczpospolita, 23.09.2012.

39 "Czy potrzebna jest przebudowa strefy Euro," Polityka, 18.09.2012; "Jaka przyszłość banków," Rzeczpospolita, 09.07.2012.

supervised by the ECB, but would not have access to its financial resources nor to the euro zone rescue fund, the European Stability Mechanism (ESM). Therefore, KNF advises no rush with membership declaration but recommends active participation in debates on the shape of the scheme.<sup>40</sup>

### Political Parties

Law and Justice (PiS), the largest opposition party in Poland, which opposes closer integration among EU countries, does not support Poland's participation in the banking union. Arguments against the banking union are of both a political and economic nature. According to the political argument the banking union is another EU initiative aimed at reducing Poland's sovereignty. PiS claims that a country like Poland that regained independence only two decades ago should be particularly cautious to initiatives that might hinder its ability to formulate economic and regulatory policies independently. The economic argument stipulates that pan European supervision would lead to the outflow of assets from the Polish banking sector and result in a situation in which deposits of Polish savers will be used to save banks in the affluent West. As a result local business will suffer cuts in credit.<sup>41</sup>

Neither the Palikot Movement nor the Democratic Left Alliance have taken a position on the banking union.

### The Financial Transaction Tax (FTT)

Whereas the banking union project is a crucial issue for the government, the financial transaction tax (FTT) is of lesser importance. The cabinet is not an enthusiast of the new tax and thinks that a bank levy would be more effective than the FTT.<sup>42</sup> Nevertheless, the government has sent signals that it is ready to join the coalition of countries pushing for the FTT in exchange for a voice in the banking supervision or/and support for its position in the Union's long term budget.<sup>43</sup> Yet even without Poland the supporters of the tax found enough

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40 "Do Unii Bankowej bez pośpiechu," Rzeczpospolita 23.09.2012.

41 Zbigniew Kuźmiuk, *PiS MP, Unia bankowa to już 7. pomysł na ratowanie euro*, available at [www.pis.org.pl](http://www.pis.org.pl).

42 "Jest zgoda na podatek – FTT. Polska poczeka i zobaczy," IAR, 22.06.2012.

43 "One country still needed to launch FTT," Euroactive, 09.10.2012.

countries to proceed with enhanced cooperation and struck an agreement that paves the way for the implementation of the tax from 2014. In reaction, the finance minister said that Poland "*would observe this experiment with good will.*"<sup>44</sup>

## **An Overview of the media coverage**

The Polish mainstream media have devoted considerable attention to major developments in the Eurozone and to the political attempts aimed at ending the crisis. This means that media reports are triggered by incidents such as major events in countries hit by the crisis most severely, decisions of the international financial institutions and rating agencies, and decisions made by European institutions. These events often hit the headlines of key news outlets in Poland. The Polish media have paid special attention to the decision-making process in Brussels as due to the crisis the demand for the news about the EU response to the turmoil has increased. All the major outlets have correspondents there which allow them to monitor the situation on a day-to-day basis and react quickly when necessary. The attention is focused on summits, which are closely watched by the investors and markets, and proposals that come from the European Commission. Technically, the Polish media provide their audience with information about the crisis and about steps taken to resolve it. However, the amount and quality of the news flow is problematic. With some exceptions the reporting can be considered as superficial and biased.

### **Superficial coverage**

European politics has always been a difficult subject for journalists and this is not limited to Poland. It is a subject that requires expertise on the topics the EU bodies are dealing with as well as in-depth knowledge of the policy process. However, the technical details that constitute the essence of EU decisions are hard to sell to the wider public. Even though reporting on EU policies and reforms requires a lot of time and effort, it does not pay off due to readers' lack of interest in European politics. The crisis has complicated the situation even more as the EU comes up with new emergency solutions, abandons them, and

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<sup>44</sup> "UE: 11 krajów chce nowego podatku. Polska nie chce," PAP, 09.10.2012.

come backs with modified versions with greater intensity. *"How the EU tackles the crisis is a rather murky area and it is not particularly interesting for our readers. They are tired of following all these reform plans that change constantly but are not ending the crisis."*<sup>45</sup> This means that the number of stories devoted to the Eurozone crisis is limited. The journalist of one of the leading newspaper estimates that this topic accounts at average for less than 20 per cent of the total economic stories in *Rzeczpospolita*, while this percentage is even smaller for *Gazeta Wyborcza*. Both papers have covered all the topics analyzed in section two of this paper. However, the majority of reports presented simplified the picture of the agreed reforms.<sup>46</sup> The media make fast judgments and they fall into two categories: success or failure. Therefore for most of 2011 Poles were reading about failures of the Eurozone to solve the crisis. Whereas these kind of articles might satisfy an undemanding audience with limited knowledge of EU politics, they do not respond to the needs of more demanding readers. The latter have to consult the international financial press for more nuanced economic reporting. Moreover, a tendency towards tabloid-like reporting can be observed. An article about the visit of chancellor Angela Merkel in Greece in October 2012 published by *Gazeta Wyborcza* can serve as an example of shallow reporting. The article entitled "Merkel greeted by swastikas in Athens" was accompanied by the photo of protesters carrying a picture of the German leader in a Nazi SS uniform. Although the article started with a quote from Merkel saying that she wanted Greece to remain in the Eurozone, it did not explain why the chancellor came to Athens. The article said that Greeks were protesting against cuts, but did not mention the implications of austerity measures for the living conditions of Greek society in terms of unemployment, level of salaries, etc.

## Objectivity

Two leading Polish newspapers seek to report about the crisis objectively, making clear distinction between facts and opinions. Both *Rzeczpospolita* and *Gazeta Wyborcza* seek to present a plurality of views. Therefore, reports on the fiscal pact or banking union were supported by the opinions of experts that had divergent views on the direction of the proposed reforms. Moreover, both papers

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45 Interview with the journalist of one of the mainstream newspaper.

46 The exceptions are the reports devoted to the EU reform that affect Poland directly, like banking union, which are discussed in the next section.

do not limit themselves to local experts, but also publish the opinions of foreign think-tanks, especially Brussels' based ones. *Rzeczpospolita* also strives to follow the debate of Polish economists about the crisis. Nevertheless, the objectivity of reporting suffers from two major deficiencies: home bias and economic bias. Home bias means that journalists concentrate on topics that are crucial from the domestic point of view. This might lead to a situation in which readers might be unaware of major debates that are irrelevant for Poland but crucial for the EU. The debate on the Financial Transaction Tax can serve as an example of a topic that is largely ignored by the newspapers because Poland does not have strong position on that matter. Economic bias implies that reporting on the crisis is largely limited to economic issues and concentrates on deficit thresholds or other austerity measures. Journalists eagerly adopt the perspectives of the markets and investors and judge the agreements reached in Brussels in the same way as stock or forex markets. If reporters tread beyond these aspects, they focus on the political threats for Poland. They are mainly concerned with the perspective of a division of the EU into a "two-speed Europe", without rising broader questions about the future of Europe, European identity or alternatives to EU integration.

In sum, despite efforts to make reporting deep and objective the Polish media do not communicate the decisions that are made on the European level in a way that explains the complexity of transnational governance of the current crisis.

## Public opinion polls

### Impact of the crisis attitudes towards membership and adoption of euro

The vast majority of Poles (79 per cent) are convinced that the crisis is not limited to the Eurozone, but impacts the whole of Europe. This translates into an almost universal belief that the crisis will have negative consequences both for Poland (87 per cent) and for individual households (81 per cent).<sup>47</sup> Whereas the fear of the crisis has not changed the attitudes towards Poland's membership in the EU, it has undermined support for the adoption of the common currency. The vast majority of citizens (83 per cent) supports Poland's membership in the EU, and thinks that country benefits from it (63 per cent). However, the support for

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47 CBOS, *Czy Polacy boją się kryzysu*, BS/2/2012.

currency switchover has been declining for three years. The CBOS poll from March 2011 showed that only 32 per cent of Poles supported adoption of euro, while the 60 per cent opposed it.<sup>48</sup> These figures remained unchanged in the first half of 2012, but dropped further to 25 per cent in July 2012, according to the poll conducted by CBOS.<sup>49</sup> Surveys conducted by TNS OBOP are even more pessimistic as they show that only 12 per cent of Poles support currency switchover, while 62 per cent think that adoption of euro will have negative impact on Poland.<sup>50</sup>

### Fiscal Pact

According to the CBOS poll conducted after signing the fiscal pact, 42 per cent of respondents accepted Poland's participation in the agreement, while about 35 per cent opposed it. The majority of respondents accept the principal components of the fiscal pact: 62 per cent accept increased control over member state budgets by EU institutions, and 65 per cent agree that the EU should be able to impose fines on member states for breaches of public finance discipline, i.e., excessive budget deficit or debt.<sup>51</sup>

### Loan to the IMF

Poles reject the idea of a loan to the IMF. A majority (57 per cent) oppose giving such a loan from the reserve of the central bank, while 32 per cent of respondents support this move.<sup>52</sup>

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48 CBOS, *Wprowadzenie euro w Polsce. Akceptacja, skutki, uwarunkowania*, BS/37/2011.

49 CBOS, *Opinie o strefie euro i integracji europejskiej*, BS/103/212.

50 TNS OBOP. *Przyjęcie wspólnej walut w opinii Polaków*, K.072/11.

51 CBOS, *Polacy o Pakcie Fiskalnym i pogłębieniu integracji w Unii Europejskiej*, BS/21/2012.

52 CBOS, *Polacy o Pakcie Fiskalnym i pogłębieniu integracji w Unii Europejskiej*, BS/21/2012.

## **Conclusions**

The crisis in the Eurozone and attempts to address it pose a serious challenge for the Polish political elites. Poland, which is obliged to become a Eurozone member is carefully observing developments in the Eurozone. The Polish elites, regardless of their political allegiances, agree that the economic crisis in general and the turbulences within the Eurozone in particular pose a threat for Poland. The growth slowdown in Europe is considered dangerous for the Polish economy, although so far the country has managed to withstand negative trends. Politically, the steps taken by Eurozone leaders to overcome the crisis are leading towards greater integration within the Eurozone, which translates into deepening of the divisions within the whole community. Greater political integration of the Eurozone countries is considered dangerous for Poland's position in the EU, as it would push Poland, a non-Eurozone country into the periphery.

Both the ruling elites and key opposition parties are concerned by the same elements of EU reforms, namely the perspective of delegating part of domestic powers on economic policy-making to the supranational level. However, there is little dialogue on how to address these issues and neither the political elites nor the media explain to the wider audience what kind of choices Poland is faced with and what the possible consequences of these choices will be. The position of the government is that transnational governance is a fact and Poland should secure a voice in this process. Therefore, the government strives to strike a balance between its foreign policy goals and domestic politics. It supports reforms that give more power to European bodies in forcing countries to behave prudently in public finance. It also wants to have an impact on the shape of these bodies and secure a voice in the emerging governance settings. Therefore, the government signed the Euro Plus Pact and the Treaty on Stability, Coordination and Governance in the EMU and supports Banking Union. It is, however, hard to attain a voice in the emerging governance setting as the government avoids declarations on the timing of Poland's Eurozone entry and does not want to take on additional burdens. Setting a date of euro adoption would improve Poland's credibility in European negotiations but is risky from the perspective of domestic politics. Since the popularity of euro is dropping among Poles, the government is reluctant to set a date, especially since the preparatory process involves



unpopular fiscal tightening. This is also true regarding taking on additional commitments that stem from the new agreements.

Whereas the government's answer to emerging transnational governance is participation, the key opposition party offers quite a different answer – obstruction. Sovereignty is something that the Law and Justice party values most. Therefore, in their view Poland should protect its economic decision-making power and block EU steps aimed at depriving countries of their economic independence. The opposition criticizes the government for capitulation and “selling” Poland's sovereignty to the EU, even though the government is far from delegating domestic powers to the UE level. The critique is shallow, and does not go beyond short-term domestic political goals. Nor does it force the government to explain its strategy and objectives. Only recently voices coming from the Central Bank and the ruling party have raised broader questions about the effectiveness of the government strategy. These actors argue that without setting a date for adoption of the euro, the government has little chance of securing a voice in the emerging pan European governance, despite taking on new politically painful commitments.

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